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**FINANCING SUSTAINABLE DEVELOPMENT: THE ROLE OF THE UNITED NATIONS  
ENVIRONMENT PROGRAMME IN THE FINANCIAL MECHANISM**

Report by the Executive Director

**INTRODUCTION**

1. The growth in the number of international environmental agreements, with their respective financial mechanisms, is bringing about a diversification and constant redefinition of the arrangements for the financing of the global environmental agenda. Today there are 10 global conventions and international agreements in which the United Nations Environment Programme (UNEP) is engaged to varying degrees; in the area of regional seas alone, there are 14 conventions and action plans, most with individual trust funds, and the aggregate amount of financial resources in the convention trust funds administered by UNEP already exceeds the resources of the Environment Fund. This means that the funding of the global environmental agenda is increasingly being driven by sectoral financial mechanisms, with integrated, cross-sectoral funding conversely on the decline. Accordingly, successful efforts in providing global solutions to global environmental problems through the strengthening of international law require the closer coordination of financial mechanisms.

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2. The purpose of this paper is twofold: first, to examine the role which UNEP has played in the development and implementation of a number of these financial mechanisms; and, second, to seek guidance from the High-level Committee of Ministers and Officials on how to enhance the role of UNEP in the further development and implementation of financial mechanisms.

3. The financial mechanisms for international conventions and agreements can be divided into four types:

- (a) Global Environment Facility (GEF);
- (b) Multilateral Fund under the Montreal Protocol on Substances that Deplete the Ozone Layer;
- (c) Traditional trust funds set up by the conferences of parties for their respective conventions or agreements; and
- (d) New and innovative financial mechanisms, such as activities implemented jointly (AIJ) and the clean development mechanism of the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

#### I. TYPES OF FINANCIAL MECHANISM

##### A. Global Environment Facility

4. GEF was created, in 1991, to assist in the protection of the global environment and to promote environmentally sound and sustainable economic development, by resolution of the executive directors of the World Bank and through related interagency arrangements between the United Nations Development Programme (UNDP), UNEP and the World Bank. GEF provides new and additional grant and concessional funding to meet the agreed incremental costs of achieving global environmental benefits in the focal areas of climate change, biodiversity, international waters and ozone-layer depletion.

5. According to the 1994 Instrument for the Establishment of the Restructured Global Environment Facility, the three implementing agencies (World Bank, UNDP and UNEP) shall be accountable to the GEF Council for their GEF-related activities and for the implementation of operational policies, strategies and decisions of the Council within their respective areas of competence, including support on an interim basis to the conventions on biological diversity and climate change.

6. As a trustee for the environment, UNEP is expected to play a strategic and distinctive role in GEF, by:

- (a) Promoting greater responsiveness of GEF to global environmental priorities, through informed decision-making, by providing strategic inputs and by fostering complementarity between actions in each focal area, so that GEF activities are consistent with global and regional assessments, conventions and agreements, action plans and policy frameworks in a development context;

(b) Providing necessary scientific and technical inputs at all levels, to ensure the scientific and technical integrity of the GEF process, and contributing effectively to the formulation of GEF strategies;

(c) Providing the perspective of global and regional frameworks and strategies which UNEP has helped to develop; and

(d) Implementing projects of a strategic nature and importance that contribute directly to increased understanding, knowledge and awareness of critical aspects of global environmental issues addressed by GEF, and also by contributing to the implementation of projects of partner agencies at their request and assisting countries, when so requested by Governments and relevant organizations, to assess their needs and develop project ideas.

7. UNEP is also responsible for establishing and supporting the Scientific and Technical Advisory Panel (STAP) as an advisory body to GEF.

8. The following paragraphs summarize UNEP support to activities implemented in the four focal areas addressed by GEF.

#### 1. Biodiversity

9. UNEP initiated the Global Biodiversity Assessment, with funding from GEF, with the aim of providing an independent, critical, peer-reviewed scientific analysis of the current issues relating to biodiversity. The Assessment has served as a basis for decision-making to meet the objectives of the Convention on Biological Diversity.

10. UNEP has also provided support to developing countries in undertaking enabling activities in meeting their obligations under the Convention on Biological Diversity, in such areas as capacity-building and institutional strengthening; training and education of scientific, technical and management personnel; and facilitating access to, and the transfer of, technologies.

11. These projects relate, in particular, to the preparation of national biodiversity country studies, strategies and action plans; and activities for which UNEP has an unquestionable comparative advantage over the other two implementing agencies of GEF, including capacity-building in managing risks associated with biotechnology; and projects of a transboundary, regional or global scope.

12. The total portfolio of UNEP biodiversity projects funded by GEF since its inception amounts to \$27,577,000.

#### 2. Ozone

13. UNEP activities in the GEF priority areas of information, monitoring and assessment and of environmental policy instruments, include assistance to a number of countries in the formulation of programmes for the phase-out of ozone-depleting substances (ODS) and, together with UNDP, the development of ODS phase-out action plans. In addition, to promote compliance with the Montreal Protocol, UNEP has, with GEF financing, assisted countries with economies in transition to promote compliance with trade and licensing provisions of the Montreal Protocol.

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14. The portfolio of UNEP ozone projects supported by GEF amounts to \$2,247,000.

### 3. Climate change

15. Since 1991, UNEP, with GEF financing, has been assisting developing countries in fulfilling their obligations under the Framework Convention on Climate Change, in such areas as reporting on national inventories and programmes to address climate change and its adverse impacts. Among other activities in this area, UNEP undertook, in 1991, the very first GEF project, related to the preparation of national inventories of sources and sinks of greenhouse gases and, through its collaborating centre on energy and climate change in Denmark, carried out a project on calculating the costs of mitigating climate change. Currently, with GEF funding, UNEP is assisting more than 20 countries with their initial national communications to the Framework Convention on Climate Change and it has now acquired the expertise to assist GEF in supporting developing countries to move beyond the national communications requirements under the Convention.

16. GEF has provided \$16,698,000 to climate projects implemented by UNEP.

### 4. International waters

17. UNEP activities in the area of international waters fall within the GEF priority areas of information, monitoring and assessment; environmental policy instruments; freshwater; and technology transfer. UNEP has embarked on the Global International Waters Assessment, which will help identify priorities for action. In addition, a regionally based assessment of persistent toxic substances is being prepared with GEF Project Preparation and Development Facility (PDF) funding to determine priority areas for action in line with the ongoing negotiations for an international legally binding instrument on persistent organic pollutants (POPs). In addition, within this priority area for UNEP, the organization has initiated, inter alia, transboundary diagnostic analyses of shared water bodies, activities relating to the issue of shared water management and the promotion of technology transfer.

18. The total portfolio of UNEP international waters projects funded by GEF in the 1996/97-1997/98 fiscal years amounts to \$20,970,000. An additional \$34,835,000 is projected for the 1998/99 fiscal year, ending 30 June 1999, of which approximately \$14 million has been secured.

### 5. Land degradation

19. Although land degradation is not one of the focal areas eligible for GEF funding, projects addressing global environmental objectives related to biodiversity, climate change or international waters may address land degradation issues as they relate to the focal point concerned. As land degradation is a multi-dimensional activity, it may be that GEF activities in this area will help achieve global environmental objectives in more than one focal area. Activities in land degradation as it relates to other focal

areas have focused on regional and transboundary ecosystems especially in Africa, which require joint efforts on the part of the countries where those resources are found. With the assistance of GEF PDF A and B grants, there are five projects in the pipeline to cover activities related to land degradation.

20. GEF support to UNEP-implemented land degradation projects amounts to \$10,632,000.

B. Multilateral Fund under the Montreal Protocol

21. The financial mechanism established in 1990 under the Montreal Protocol, to assist developing countries, includes the Multilateral Fund and other multilateral, regional and bilateral cooperation. The Fund meets the incremental costs of the Parties operating under Article 5 of the Protocol (developing countries) to implement the control measures of the Protocol and finance all clearing-house functions. The Fund secretariat is co-located with and administered by UNEP, and is financed from the Fund, with an annual budget of \$3 million.

22. The Multilateral Fund operates through four implementing agencies, each with slightly different roles: the UNEP Division of Technology, Industry and Environment, which provides clearing-house functions and helps prepare country programmes for low-consuming developing countries; UNDP; the United Nations Industrial Development Organization (UNIDO) and the World Bank.

23. The total cumulative allocation to UNEP as one of the implementing agencies of the Multilateral Fund has now risen to \$32.4 million. UNEP activities as an implementing agency are all coordinated by the Division of Technology, Industry and Environment in Paris.

24. Since June 1991, the UNEP OzonAction programme under the Multilateral Fund has been designing, developing and delivering quality-reviewed, need-based services for key stakeholders in developing countries. OzonAction aims, inter alia, to strengthen the capacity of Governments and industry in developing countries to take informed decisions that will result in effective investment projects, and to build up the local expertise required for the responsible management of ODS phase-out projects with minimal external intervention. UNEP activities fall into two main categories:

(a) Core clearing-house activities, comprising global and regional information exchange and the training and networking of national ozone units;

(b) Country-specific support activities, comprising country programmes and institutional strengthening for countries that consume low volumes of ODS, national training, and refrigerant management plan preparation as specified in the country programme and approved by the Executive Committee.

C. Traditional financial mechanisms: trust funds of conventions and other international agreements

25. Most conventions and international agreements have trust funds created by contracting or concerned parties for funding secretariat operations and the implementation of work programme activities. For UNEP-administered conventions, UNEP serves as the trustee. In addition, as the secretariat of the Global Programme of Action for the Protection of the Marine Environment from Land-based Activities, UNEP administers the trust fund for financing the operations of the secretariat in The Hague with funds provided by the Government of the Netherlands. Through the United Nations Office at Nairobi, UNEP support to the administration of these conventions and agreements includes human resources management, budget and funds management, financial resources management, support services, security and safety services, information technology services and conference services.

26. The responsibility of UNEP is to ensure effective management of the resources of the conventions, to assist them in programming, budgeting, accounting and meeting all their financial reporting requirements. This entails assisting the secretariats, first, with the preparation, review and justification of the respective programmes presented to their conferences of parties and, second, with the design and revision of projects to implement the objectives of their conventions or agreements. The guidelines for project design and the approval process are those laid down by UNEP.

27. The Financial Rules of the Fund of the United Nations Environment Programme and the Financial Regulations and Rules of the United Nations are strictly adhered to in these convention trust funds, with UNEP providing guidelines for the transactions and accounts of the conventions, including systems and facilities which help ensure the smooth performance of their programmatic activities. UNEP ensures at all times that the budget for the proposed activities of the conventions is in line with the resources paid into their trust funds. The United Nations Board of External Auditors audits the accounts and finances of the conventions and their secretariats and these are reported to the General Assembly as part of the UNEP accounts.

D. Innovative financial mechanisms

28. Attention is drawn to the following three types of innovative financial mechanisms.

1. Activities implemented jointly

29. In the area of AIJ, in October 1996, UNEP sponsored an open forum in San José, Costa Rica, to discuss new partnerships to reduce the build-up of greenhouse gases. The forum recognized that the AIJ-related issues needing urgent attention were financial mechanisms and technology transfer. UNEP was asked to address those issues and, as necessary, further forums targeting these matters will be encouraged by UNEP.